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C O N F I D E N T I A L MONTEVIDEO 000746

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DEPT ALSO FOR A/S SHANNON, WHA/BSC AND EB  
DEPT PASS USTR FOR EEISSENSTAT AND SCRONIN  
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TAGS: [ETRD](#) [PREL](#) [ECON](#) [PGOV](#) [AORC](#) [UY](#)  
SUBJECT: USTR VISIT PROMPTS PRESIDENT VAZQUEZ TO OPENLY  
ENDORSE FREE TRADE

REF: A. MONTEVIDEO 00707

[1](#)B. MONTEVIDEO 00616  
[1](#)C. MONTEVIDEO 00616 AND PREVIOUS

Classified By: Charge D'Affaires James D. Nealon  
for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary: The recent visit by Assistant United States Trade Representative for the Americas Everett Eissenstat and USTR's Senior Director for Brazil and the Southern Cone, Sue Cronin, sparked an intense internal debate over the future direction of Uruguay's trade relationships and pitted outward-looking free trade advocates against the old-time statistes wedded to the Mercosur trading bloc. President Tabare Vazquez came out squarely in favor of more trade with the outside world and for deeper ties with the US, persuasively arguing that such moves might result in a "bigger and better" Mercosur, although he could not say how an FTA with Uruguay would be reconciled with Mercosur. The stubbornly ideological Foreign Minister Reinaldo Gargano publicly defied the President's message, but said he would not resign. The USTR officials were invited here to participate in a Council of the Americas event, but their presence precipitated an informal referendum on a Free Trade Agreement (FTA) with the United States. During their broad public and private discussions, USTR officials made it abundantly clear that the US was not negotiating or pressuring the GOU on an FTA. However, they identified the difficult commitments, constraints and concessions necessary should a trade agreement be formally pursued. The week was particularly significant in terms of the Frente Government's search for a balance between pragmatic needs and its increasingly awkward socialist rhetoric. There seemed to be a palpable sensation that the country was at some kind of tipping point. The national debate on Uruguay's place in the world, and its place in Mercosur was significant and will be closely monitored going forward. Below are some highlights and selected excerpts from the USTR officials' visit. End Summary.

[1](#)2. (U) A/USTR Everett Eissenstat and USTR Director for Brazil

and the Southern Cone Sue Cronin arrived in Montevideo on August 7 to attend a Council of the Americas event entitled "Uruguay in the Global Economy." This was a significant event here that received widespread media attention. The USTR officials also had ample opportunity to consult with a wide variety of key decision makers during their 3-4 days of meetings, including with President Vazquez.

#### August 8 Meeting With President Vazquez

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13. (C) USTR officials and the Charge met with President Vazquez at their request on August 8 at the Suarez Residence. The President insisted that the meeting be kept from the public. Initially Vazquez appeared nervous, perhaps anticipating that A/USTR Eissenstat was going to press him to define his thoughts on an FTA. Vazquez soon relaxed after realizing that the A/USTR was not there to apply any pressure. Eissenstat began by conveying greetings from President Bush, to which Vazquez inquired if he was well. Eissenstat said that he was, and that POTUS appreciated his support for a shared vision of spreading democracy, opening markets, and enhancing the rule of law. Vazquez responded (paraphrased). "Please send my regards to President Bush. We had an excellent meeting in Washington. Tell him I haven't yet had a chance to use the fishing rod. I feel good about tomorrow's (Council of the Americas) conference, as it's important for the country. Let's cooperate so that it is a success. We're going to have a deep discussion about the right path to deepen our trade relationship. It's a turning point. We have had good relations historically - artistic, cultural, in the defense of liberty, peace, fighting for social justice, defense of liberty. Now perhaps we can enhance our relationship in the trade field. Our technical

people are exploring which road would be the best to achieve that. I wouldn't be honest if I didn't say that there are distinct different voices within my government. But I am optimistic that we can advance. All in my government share the basic goal of enhancing the trade relationship. If there is political will, we can do it. You have lots of experience in this arena, but we have very limited experience outside of Mercosur. We only have a free trade deal Mexico, signed two years ago. We don't want to damage Mercosur. We want to protect our investment in regional integration. We don't want any new agreement to harm Mercosur. That is our challenge now that you are here."

14. (C) A/USTR Eissenstat responded that the US is committed to the multilateral trade system and was disappointed at the suspension of the latest Doha WTO talks. He thanked Uruguay for its constructive help in Geneva and for playing a positive role. Eissenstat remarked that market access is the key that can help a small country like Uruguay. Vazquez responded (paraphrased) "Yes, in my speech I'll say we can't just discuss possible bilateral agreements, we need a broader context. I think we can begin a new relationship between the United States and Latin America. This may seem like a paradox now that there are so many "progressive" governments in Latin America, but it isn't. This political ferment creates the conditions in which a new relationship could thrive. It's in this context that we need to think about a possible trade agreement. Let's find a point where our interests meet. According to the report I've received from my (trade) team, a lot of technical progress has been made. Now the work ahead, for us, is mostly political. I believe your President will see things the same way. Let's take advantage of the political momentum that we currently enjoy. I don't believe in populism. I believe in delivering better living standards for our people by creating jobs. I will be flexible. If we have the political will we can move ahead. You know, this is what your President told me."

15. (C) Eissenstat indicated that USTR has been very pleased with the progress made under JCTI auspices. He noted that President Bush stated that he wanted to deepen our trade relationship -- and as a result USTR is talking to Vazquez, team to find the most appropriate way to do just that. He

said that our measured approach is the correct approach because, "We want to continue to be successful and we want you to understand that we don't want to undermine Mercosur either. We leave it to you to work out your path with Mercosur as we move forward. For us, the goal is to enhance the trade relationship. We want to choose the best path to do that, a path that works for both of us." Vazquez responded that Uruguay wanted to continue the dialogue and to enhance the trade relationship. He assured the A/USTR that Uruguay has consensus on that commitment and that he could rest assured that the GOU will move ahead in a serious manner.

¶6. (C) Eissenstat commented that "It sounds like we have a shared vision," and asked Vazquez to give his opinion on Mercosur. Vazquez laughed and said, "It's not easy. I'll base my answer on statements made by Lula and Kirchner back in May, in Brazil. When I made my statements then that Mercosur isn't currently serving the interests of the smaller members and that bold words and good intentions need to be put into practice, both Lula and Kirchner said to me that they would not stand in the way of trade negotiations with third countries outside of Mercosur. I have those statements in my files. Later, Celso Amorim came here and delivered a very different message, but I choose to remember what Lula had said instead. In Cordoba, Minister Astori made a proposal to allow the smaller countries to negotiate outside the Mercosur bloc. There was no resolution, but Astori said the atmosphere was positive. But look, if we signed an FTA with Mexico two years ago and they didn't kick us out then, why would they kick us out now? We're working on all this through Mercosur channels. I believe that maybe our improved

trade relations with you can also help improve our regional relations. We need to start somewhere, and this is a good place to begin."

¶7. (SBU) Highlights of 8/9 Council of the Americas Event  
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-- President Vazquez observed that individuals respond to the global economy by either trying to avoid it or by "planting their feet squarely in reality" and participating in it. He opined that his Governments "principles and pragmatism were not incompatible" and strongly urged the latter approach. In reference to a Uruguay/U.S. trade deal, he said, "History doesn't rewind, it doesn't stop, it doesn't repeat. The train, sometimes, comes only once," and concluded that Uruguay should actively pursue deepened trade relations with the United States.

-- Foreign Minister Gargano followed Vazquez in a somewhat incoherent speech that lambasted agricultural subsidies and complained that Bilateral Investment Treaties gave too many advantages to foreign investors. Outside the conference room he later openly contradicted the President when he told the press that he was opposed to an FTA because he had to "remain faithful to the voters who had elected the Frente Government."

-- Former Chilean Ambassador to the U.S. Andres Bianchi proved to be one of the most useful interlocutors on discussing a Free Trade Agreement since he had been closely involved in Chile's FTA negotiations with the US. He outlined the difficult steps that were needed and surprised his audience when he told them that Chile had unilaterally lowered its trade tariffs as part of its poverty alleviation program, with a positive benefit to government coffers.

-- AUSTR Eissenstat's remarks revolved around three themes, 1) Uruguay's success in following good policy, both politically and economically, in particular its adherence to the rule of law and democratic institutions, 2) the importance of re-engaging to bring the Doha Development Agenda to a successful conclusion and 3) our joint commitment to deepening the trade relationship. Eissenstat left the means of achieving that goal open, saying that he would return in October for a meeting of the Joint Committee on

Trade and Investment to discuss the best means of moving forward.

-- Economy Minister Danilo Astori stated that Uruguay should look beyond the borders of Mercosur to expand its trade and thereby develop its economy. He also argued that while the larger countries benefit from the protection of a closed Mercosur system, the smaller countries, such as Uruguay, are hurt by restrictions against trade outside the bloc. Astori highlighted accomplishments in the US/Uruguayan trade relationship thus far including JCTI, the BIT, Uruguay's removal from the 301 list and the meeting with POTUS last May. He opined that market access to the world's biggest economy was essential for Uruguay and said that Uruguay's commitment to the rule of law and its fight on poverty would pay off in terms of foreign investment.

-- A peaceful protest mainly by Communists, radicals and trade unionists against an FTA took place in downtown Montevideo without incident in the early evening. Estimates of the size of the crowd varied from 400 to 1,000.

#### 18. (C) Other Key Contacts

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-- On August 7 Eissenstat, Cronin and the Charge met with the GOU members of the Joint Commission on Trade and Investment (JCTI), including Ambassador to the U.S. Carlos Gianelli, the MFA's Carlos Amarin and the Economic Ministry's Dario Sarachaga. Most important issues covered: If an FTA was to be

pursued what are the potential obstacles. Among them: Antel, ANCAP, Beef BSC, Pharmaceuticals, and Intellectual Property Rights. That evening, at dinner at the Charge's Residence Eissenstat and Cronin met with Minister of Economy Danilo Astori, Minister of Industry Jorge Lepira and Ambassador to the US Carlos Gianelli.

-- On August 8 the USTR officials met separately with opposition National Party Leader Jorge Larranaga and former Colorado President Jorge Batlle. Batlle shared President Vazquez' vision on building a new relationship between the US and Latin America. He said that. "If Uruguay signs an FTA with the US it will be like dominoes in the region. Paraguay and yes, Argentina will follow." The USTR officials also held an off-the-record meeting with the American Chamber of Commerce where one businessman remarked "if you want an FTA with us all you have to do is change the name and yield in one discussion. That will do the trick."

#### USTR Senior Southern Cone Director's Meetings with Key Sectors

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19. (SBU) Sue Cronin separately met August 9-10 with representatives in key sectors of the economy to discuss potential problem areas and to exchange views. These included: Daniel Belerati (Executive Director of the Chamber of Beef Exporters), Gustavo Zerbino (President of the Chamber of Foreign Pharmaceuticals), Pedro Otegui (China Camber of Commerce), Dr. Luis Fratti and Dr. Fernando Perez Abella (President and vice-president of INAC Organic Beef Association) and members of the Uruguayan Information Technology (IT) Chamber. Among general themes, Cronin explained that the US was a common law country and was bound to propose the same texts on regulations to all countries concerned with little room for maneuver, making it virtually impossible to accommodate sensitivities that may be unique to Uruguay. To this end, she encouraged her interlocutors to review the openly-available relevant texts of the Peru TPA as well as the FTA texts for Colombia and Costa Rica in order to understand US requirements on touchy issues such as Government Procurement, Intellectual Property rights, US beef exports, Pharmaceuticals etc. she also encouraged her interlocutors to study niche markets and the benefits intra-hemispheric trade apart from the US. It is worth noting that during Cronin's discussions private sector players generally did not see Mercosur as a key to economic growth or a benefit to their own enterprises. They were concerned

about Venezuela's entry into the bloc, and noted that it could change the nature of Mercosur, making it less a trade agreement, and far more political.

#### COMMENT

10. (C) The USTR senior officials' visit was exceptionally useful in promoting the deepening of the Uruguay-US trade relationship while providing a dose of reality about the challenges entailed in launching an FTA. It also had the unintended effect of sparking an internal debate on where Uruguay should be headed in the increasingly globalized world economy. Both in private and in public President Vazquez demonstrated his unwavering commitment to constructive engagement and a deepened trade relationship with the US and confidence in his ability to counter domestic and regional opposition to this vision. This is not the first time that he has told us that he wants to be part of a new relationship between the U.S. and the region. It was a bold political move that Vazquez, in front of his Vice President, his obstreperous Foreign Minister, and all but two members of the Cabinet, told Uruguayans that he would continue to pursue regional integration that serves Uruguay's interests, but that he would also pursue deeper ties with the United States.

Concern regarding Venezuela's entry into Mercosur was a recurrent theme in meetings with government officials and opposition representatives. Like the private sector, government/opposition leaders thought Chavez would make

Mercosur far more political. They also noted that Venezuela's ascendance posed a threat to Brazil's leadership in the region. When the time comes, they thought this concern might be manifested through an active debate in Uruguay and Brazil over legislative approval of Venezuela's Mercosur membership, though approval of Venezuela's membership is a foregone conclusion. This telegram was cleared by USTR. End Comment.  
Nealon